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UNITED KINGDOM POLICY AFFECTING AGRICULTURAL TRADE 1/

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UNITED KINGDOM POLICY AFFECTING AGRICULTURAL TRADE

Recent governmental policy changes improve the market prospects in Britain for imported agricultural products. The British domestic agricultural price and policy announcement in March was a significant step in the direction of freer trade in agricultural products. Subsequent changes in prices and controls, such as changes in bulk purchasing of agricultural imports, resumption of cotton futures trading on the Liverpool market, and return of most of the commodity trade to private channels further underline this trend.

Britain's agriculture has anticipated increased competition from abroad. Its emphasis is now on increasing and stabilizing production of those commodities that it can produce most efficiently--beef and prime mutton, improved grass and silage and other animal feedstuffs, milk, poultry and eggs, and horticultural crops.

The Government is definitely shifting from a system of state trading, fixed prices and production goals to a system of indirect import controls. In contrast to previous emphasis upon quantity and fixed prices, increased emphasis is to be placed upon quality, efficiency of production and catering to consumer demand.

Under these recent changes, most domestically produced commodities will sell at the market price, but the Government will make up any difference between that price and the guaranteed price on those products receiving support. There are provisions also that permit additional adjustments to be made in the guaranteed prices of some commodities. There recently have been some small reductions in the guaranteed prices for several domestically produced commodities. So far, only one, milk, has a quantitative quota limiting the payment of the guaranteed price. However, arrangements similar to that for milk are under consideration for some other commodities.

Britain has recently moved toward freer trade, but indirect controls on specific commodity imports and on prices are still in effect. These controls work through existing bulk purchase agreements and also by direct or indirect restrictions on dollar area exchange.

The effects of these shifts in British agricultural trade policy may be summarized as follows:

(1) most of the agricultural import trade has been returned to private channels; (2) food rationing ended on July 3 with the freeing of meats; (3) total agricultural output is expanding at a slower rate and for selected commodities; (4) the Government is exercising controls to ease the impact of competitive world prices and increased world food supplies upon British farmers; (5) domestic price support subsidies on specific commodities are being continued; (6) a substantial reduction in the cost to the Government of guaranteed prices on specific domestic products is to be expected.

Shifts in Commodity Purchasing Methods

At mid-year 1954 there were nearly 30 long-term bilateral bulk purchasing agreements for agricultural commodities between the United Kingdom and various countries, particularly Commonwealth countries and territories. By briefly summarizing the status of these agreements we can clarify the world-wide trade realtionships that make British agricultural policy complex and difficult to understand.

Some of these agreements have recently been terminated by mutual consent; others have been modified to include price guarantee to producers similar to the guarantee price system in British domestic agriculture. Still others have been extended without substantial change in form. In one instance, there has been already a request for a further extension of a bulk purchase agreement which does not expire until 1959. A rather large number of the food agreements are due to expire within the next year. See Table 1 in attached appendix.

Agreements Terminated

On May 11, 1954, the Ministry of Food announced the discontinuance on June 30 of its long-term agreements with the various Marketing Boards of British West Africa for purchasing peanuts, peanut oil, palm kernels, palm oil, sesame and cottonseed. These Marketing Boards will now sell direct to African Agencies of established British companies. Control of marketing, prices and exports will doubtless continue to be exercised indirectly through the quasi-governmental Regional Marketing Boards in the various producing areas. This action coincides with a significant recent increase in the quantity of higher quality edible palm oil from British West Africa and a corresponding decrease in lower grade palm oil for soap and other industrial uses. This trend is particularly important because of the rapidly expanding production and consumption of synthetic detergents in Britain. The trade in fats and oils in Britain is, therefore, now regaining its freedom--except for certain currency restrictions--for the first time since 1939, at a time when the outlook is one of plentiful supplies. Likewise this action closely coincides with margarine derationing, which the trade in Britain hopes will result in increased consumption.

New Zealand and the United Kingdom have agreed to end the 1954-55 meat agreement on September 30, 1954, and production after that date will be shipped on private account. The United Kingdom will place no quantitative restrictions on imports of beef, veal, mutton and lamb from New Zealand. The latter will be free to sell any quantity elsewhere. Britain will doubtless continue to be New Zealand's main market for lamb, but at the same time New Zealand will have freedom to secure markets and better prices elsewhere.

Agreements Extended

Shipments of meat by the Argentine Government, including beef, on the Ministry of Food account, continue after derationing in July, and beef shipments in particular will probably continue for sometime thereafter, or until the agreed amount is delivered.

Under a supplementary contract of March 27, 1953, Uruguay undertook to sell 30,000 tons of meat, principally beef, in addition to the regular contract. It is likely that some quantity of all types of meat covered by this agreement has not yet been delivered.

Denmark has agreed to extend for two more years its bulk bacon sales agreement due to end in October 1954. Recently, it has also agreed to send nearly all its bacon exports to the British market. Approximately two-thirds of the bacon Britain bought from abroad in recent years came from Denmark.

The Netherlands and the United Kingdom have a bacon contract for the period December 1, 1953 to September 29, 1956, covering specified quantities to be exported to Britain.

All price and ration controls on fats and oils were ended on May 8, 1954. However, several long-term contracts between the Ministry of Food and Commonwealth areas for the importation of edible oils are still in effect, and are of considerable importance to the importation from dollar areas of lard, butter and other edible oils. Most of these contracts expire within the next 12 months, but the contracts for oils and oilseeds from the Pacific Islands continue until the end of 1957. The Ministry of Food's long-term contract with Denmark for butter is due to expire on September 9, 1955; the Australian agreement for butter and cheese on June 30, 1955; and the New Zealand butter and cheese agreement in July 1955.

The Ministry of Food has a ten-year contract expiring in 1959 with Trinidad, Jamaica and British Honduras for the supplying of orange concentrate for British school children.

The Southern Rhodesian Tobacco Marketing Board and the British Tobacco Board of Trade have a five-year purchase agreement which each year, after discussion and negotiation, is extendable for a five-year period.

Agreements with Deficiency Payment Provisions

Australia has recently negotiated a significant new agreement with the British Ministry of Food for dried fruit which provides that the Ministry agrees that if the average realized price for Australian fruit in Britain, less cost of ocean freight and landing and selling charges, falls below the agreed support prices, the Ministry will pay the difference to the Australian Government.

Agreement has been reached with the Australian Government recently that bulk purchase of meat from Australia ceased on June 30 for mutton, lamb and their offals, and on September 30 for beef, veal, pork and their offals, after which dates private production for export can begin. However, a minimum price system, under an agreement terminating September 30, 1967, will go into effect by which the United Kingdom will make a deficiency payment to the Australian Government if the average price realized for beef, mutton and lamb in Britain for the year beginning October 1, 1954, falls short of an agreed minimum percentage of the average return for the 1954-55 season, and

varying with the grade of meat, from 95% to 75%. Australia will, if necessary, restrict the quantities of beef, mutton and lamb that may be shipped to destinations other than the United Kingdom and Colonial markets in order to meet British needs.

Prior to decontrol of the meat trade in July 1954, Britain and the Irish Republic renegotiated the meat agreement due to expire on June 28, 1956, on more favorable terms to Ireland, under which Irish cattle and sheep and their meat can be shipped to the United Kingdom in unlimited quantities. Previously, sales of Irish livestock and meat in the British market had been controlled, and prices had been renegotiated from time to time, by the two governments.

Under the arrangement governing the decontrolled trade, Irish fat cattle and feeder cattle (fattened in Britain for two months) will be eligible for the same price support as United Kingdom's producers should the British market price for cattle fall below the British individual guarantee level for domestic cattle. However, if the price only falls below the average British guaranteed price, Irish cattle will be eligible for a price support up to within .6 cents per pound of the British support level.

Reopening of Commodity Markets

The reopening of the Liverpool Grain Futures Market on December 1, 1953, and of the Liverpool Cotton Futures Market on May 18, 1954, is important to agriculture in the United States. Traders may now buy and sell in the world market. However, conditions and restrictions circumscribe these trading operations. As an example of this is the continuing strong influence of exchange control regulations through the Bank of England. While it is true that many specific currency restrictions are no longer in effect, the Bank has issued very detailed regulations applying to trading operations, as each commodity market has been freed.

Those who use the reopened markets are required to make regular returns to the Bank of England. The Bank and Treasury watch carefully the speculative trends and movement of dollars from the commodity trading operations. World buying and selling is permitted only to persons having a continuing interest in the importation and marketing of grain and recommended to the Bank by the National Federation of Corn Trade Association. The lack of general currency convertibility--not sterling alone handicaps the trade.

Regulations preclude operations in the futures markets for grain and cotton from being converted from a hedging function, designed to improve the British industry's competitive position, into supply contracts. For example: (1) export or re-export of grain will not normally be permitted; (2) third-party trade with British traders buying from one country and selling in another is limited in that "dollar" grain can only be resold outside the sterling area either against payment in U. S. or Canadian dollars or in sterling from an American or Canadian account.

British Domestic Agricultural Production Policy

British import grain policy will be strongly influenced by the recent announcement that domestic grain production will continue to play an important part in the maintenance of a large tilled acreage. In 1952 the plowing up subsidy was resumed for land seeded to grass for a period of 4 years and its planting to certain grains and potatoes at the rate of $14 per acre. Likewise the lime subsidy has been continued at a slightly reduced rate. A well balanced rotation of grains, grass and legumes, as a part of a large tilled acreage program, is considered by the Government and agricultural leaders to be vital to the maintenance of a highly efficient level of domestic meat production, including an increase in high quality fresh beef. Emphasis has been laid upon more efficient feeding techniques, and better management and utilization of grass, coupled with a hope for reduction in imported feedstuffs.

Reports indicate a decrease in acreage of fall planted wheat, but an increase in acreage of spring planted wheat, with a resultant net increase in total acreage. British domestic production of cereals has shown substantial increases in yields and acreages in comparison with prewar. Particular emphasis has been laid upon planting new and improved varieties of wheat, with reputedly better milling qualities.

Because of the increased emphasis upon domestic production of animal feedstuffs in the form of grain and grass and probably a long-term resultant drop in import demand, it is believed there will be increasing competition in feed grains on the British market. This situation will, of course, be affected by the future level of livestock numbers. Despite the very substantial increases in British production of barley, mixed grains and oats, the production of feed grain supplies is now approximately the same percentage of total feed grain requirements as prewar, primarily because of the increased number of milk cattle, hogs and poultry.

Milk marketing has been returned to the regional Milk Marketing Boards, which continued their existence under rationing as agents of the Ministry of Food. Although the Boards were faced with a decrease in consumption of liquid milk by the general public, plus a substantial increase in total production, and a reduction in the maximum average guaranteed price, the regional Boards have launched an aggressive nationwide advertising campaign to increase the consumption of liquid milk.

Significantly the Government's price guarantee will be applicable only on a fixed quantitative quota of milk for each region instead of to all milk produced. Also the guarantee in the future will be to the Boards instead of to individual producers. The Government's new guaranteed price is only paid on 80 percent of each regional quota, with a lower price for the remaining 20 percent. For this 20 percent each Marketing Board will be guaranteed the lower price plus or minus half the difference between this and the average net price realized on manufacturing milk, which is in essence a profit and loss sharing scheme between the Government and the Boards on the lower priced milk produced in excess of the regional support quotas. A mission from the Milk Marketing Boards made a close study in the United States of our milk production, marketing and distribution systems before these changes were placed in effect.

All milk in excess of liquid consumption is sold at lower prices for manufacturing purposes, and the Boards' current selling prices for that purpose vary for butter, cheese, and condensed and dried milk. While, there is as yet no specific campaign aimed at increasing the domestic production of butter and cheese, other than restoration of manufacture of traditional British cheeses, such as Stilton and Cheddar, there is a significant recent increase in the quantity being utilized for cheese manufacture. While total quantity of milk sold for manufacturing in 1953 is only slightly less than 1939, the quantity used for cheese in 1953 is nearly half the manufacturing consumption, or more than two and one-half times prewar utilization. Percentage-wise, however, only 20 percent of milk production was utilized for manufacturing purposes in 1953, while one-third was so used in 1939. This is explained by the more than fifty percent increase in milk production compared with prewar.

When rationing ended on July 3, 1954, all domestic meat trade was returned to private channels. A Fatstock Marketing Corporation has been sponsored by the National Farmers Union for the marketing of domestic livestock but marketing through it is not compulsory. It will not immediately have facilities available to serve all parts of Britain.

The guaranteed price for domestic hogs is now tied to the cost of feedstuffs. The only other major change in guaranteed prices for livestock to British producers is the slight reduction in the price for fat cows and the setting of a new lower uniform subsidy for hill feeder cattle in place of the previous higher and variable rate on various types. The subsidy on cows and in-calf heifers in regular breeding herds will remain at $28.00 a head during 1954, 1955 and 1956. The hill cattle program is a part of a program to provide more hill cattle as feeders and calves for lowland farms, and at the same time assist in the rehabilitation and improvement of hill sheep and hill farms. This was particularly necessary during World War II in view of plowing up of large acreages of lowland grasslands and in order to provide prompt financial means for increasing the efficiency of highland rough grazing for the production of meat.

There has been a substantial increase in new acreage of apples and pears in the United Kingdom since the war, and much of the increase, particularly of dessert apples, is now beginning to come into production. The apple crop in 1953 was a record one of 28.8 million bushels and well over two and one-half times an average prewar crop.

British home-grown fruit now provides about half of the available fresh supplies, as contrasted with less than a quarter in the prewar period. Overall fresh fruit consumption has dropped about 17 percent, or nearly 14 pounds per capita, under the 1934-39 average. However, a recent official announcement stated the consumption of apples is greater than the prewar level as a result of increased home production. Likewise there are indications of a developing market for small fruit farms in Britain for both young and retired couples. Since the war there has been an increased consumption in Britain compared with prewar of canned juice, concentrates and drinks containing citrus, perhaps partly stimulated by the bulk purchase of orange concentrate for British school children, and further development of the citrus industry in the Commonwealth areas.

Agricultural Trade Controls

Britain still retains a considerable check-rein on dollar imports of agricultural products into the United Kingdom. Among the several types of controls, there are four import licenses: (1) "World Open General License" under which goods are admitted without quantitative restrictions from all countries, including the dollar area; (2) "Open Individual License" under which licenses are issued to individuals or companies permitting importation of specified classes of goods under certain restrictions, usually from certain specified countries or groups of countries; (3) "Individual Import Licenses" permitting the import of particular classes of goods of limited quantities by three basic methods (a) Ad hoc consideration of application for licenses; (b) apportionment of quotas among importers, and (c) apportionment of quotas among exporters to Britain by arrangement with the governments of the countries concerned; (4) "Token Import Scheme" allowing exporters in the United States and Canada to ship 30% by value of their prewar (average of 1936-38) exports to the United Kingdom. Progress in liberalizing dollar imports has been confined largely to foodstuffs and basic material, but other countries so far have benefited more than the United States from this policy.

Recently the Government announced that they have set the objective of getting the right produce, of the right quality and at the right cost. However, it is stated that Britain still has to depend on the rest of the world for about half of its agricultural supplies.

Butter and Cheese

Imports of butter, butterfat and cheese can be made from the sterling area and certain other countries under "open general licenses". However, imports from the United States and other countries will only be issued in accordance with special arrangements that may be made from time to time. It was very recently announced that a quota has been established for the import of natural cheeses from Canada and the United States. Import licenses will only be granted to traders who imported natural cheeses from Canada and the United States during the period 1937 to 1938 and who paid the overseas supplier direct.

On July 6 the Foreign Operations Administration announced that it had sold 14,600,000 pounds of unsalted butter to Britain under the terms of the Mutual Security Act. British butter requirements specify a moisture content of not more than 16 percent. Opening retail prices for butter after decontrol on May 8, 1954, varied from 56 cents to 63 cents and prices of various grades of margarine varied from 21 cents to 31 cents retail. In February 1954 under rationing the consumer was offered only one grade of margarine at approximately 21 cents and butter sold for approximately 51 cents retail. Preliminary indications are that the British housewife is buying about the same quantity of butter that she did under rationing. In the meantime she is testing the numerous grades and brands of margarine and cooking fats. One large manufacturer has had to temporarily ration allotments

to grocers until the production catches up with demand. In the five years before the war Britain consumed an average of 526,000 long tons of butter, compared with 190,000 tons of margarine. Under rationing butter consumption fell to about 300,000 tons, but margarine consumption rose to about 400,000 tons.

In any event there will be strong competition between butter and margarine. The traditional principal butter suppliers, Denmark, New Zealand and Australia, have formed a Butter Council in London to maintain the British preference for butter in competition with the numerous grades and brands of margarines now offered. However, the Butter Council acknowledges that at the present time the three countries could not immediately meet more than three-fifths of the prewar level of consumption, but in the meantime is seriously interested in insuring that butter does not price itself out of the British market.

Other Livestock Products (except Lard)

Until about the end of 1954 or longer, the bulk of the imported meat shipments is likely to belong to the Ministry of Food. The Ministry will continue to be the sole importer of bacon and hams.

Meat consumption per capita in Britain under rationing since the war has remained below its prewar level, particularly beef and veal. The domestic contribution to total supplies of meat has risen from 51 to 59 percent for carcass meat and 32 to 45 percent for bacon and ham, while imported supplies of beef are deficient. Beef and veal imports rose sharply between 1952 and 1953, but they are still only half what they had been in 1938. The quality of domestic meat production generally still leaves considerable leeway before prewar standards are attained.

The United States Foreign Operations Administration under Section 550 authorized the sale of $17,250,000 of U. S. beef to the United Kingdom, but actual purchases have not yet been consummated.

Denmark has agreed to temporarily reduce its canned milk exports to Britain while the Ministry of Food disposes of its existing stocks of canned milk. New Zealand exports of processed milk to the United Kingdom have been reduced in quantity and the price adversely affected.

Cooking Fats

Traditionally lard has been the preferred cooking fat in Britain and it has been imported in large quantity from the United States. Exports, however, have fluctuated widely in tonnage from year to year since the end of the war. This has been caused partly by dollar shortages and partly by the presence of certain non-commercial factors in the operation of the British purchasing program. Domestic lard prices were first controlled in 1940, but are now determined by supply and demand. Raw materials for substitute cooking fats have their origin largely from tropical Commonwealth sources.

Beginning in November 1952 the Ministry of Food authorized the purchase of lard in the United States with the dollar foreign exchange earned from the sale of palm kernel oil in the United States. It is presumed that the 12,000 tons purchased in 1953 originated from such exchange. No purchases of cottonseed oil were made during the calendar year 1953.

Programs for the sale of $8 million worth of lard and $16 million worth of cottonseed oil to the United Kingdom under Sections 550 and 541 were approved in December 1953 by the Foreign Operations Administration, subject to further changes. No other import authorizations have been made by the British Government during 1954 for cottonseed oil. Lard, cottonseed and oil are excluded from open individual licensing at this time, probably because of the Foreign Operations Administration sales programs. The Foreign Operations Administration recently granted to the United Kingdom authority to purchase $13,500,000 of lard under Section 541 of the Mutual Security Act.

Linseed and Soya Beans

Linseed and soya beans have been under open individual licensing for several months.

Grains

The promised freedom in the British grain trade, particularly wheat, is not yet an accomplished fact because (1) the Ministry of Food has continued its buying, storage and selling of grains, (2) the trade has currently agreed to take a certain percentage of domestic grains in preference to imported, and (3) Canadian wheat is being purchased according to the agreement announced on July 6 by the Canadian Wheat Board, with the British buyers receiving the benefit of subsequent price reduction within a specified period.

The Government announced in the White Paper of March 18, 1954, that farmers would sell their wheat in the competitive market, and the Government would pay farmers whatever difference there was between the market price and a guaranteed "standard price". While the guaranteed price is unchanged for the 1954 grain crop, reduction per hundredweight (112 lbs.) have been announced for the 1955 crop as follows:

	1954	1955
Wheat	30s 9d ($4.30)	29s 9d ($4.16)
Oats	42s 0d ($3.36)	23s 0d ($3.22)
Barley	25s 6d ($3.57)	24s 6d ($3.43)
Rye	25s 0d ($3.50)	23s 0d ($3.22)

The Ministry of Food is endeavoring to liquidate in an orderly fashion its stocks of grains. However, at the same time until June 30 the Ministry continued to buy domestic grains from the 1953 crop when no other buyer entered the market to buy at the guaranteed price, and it is continuing to operate the storage facilities of the Recommissioned Mills. Doubtless, it will continue some or all of these grain operations during the coming

crop year. There have been some discussions in the trade concerning a future quantitative limitation on the payment of the guaranteed price for wheat.

There are "gentlemen's agreements" between the Government and the trade to utilize a high percentage of domestic malting barley for brewing beer and also specific quantities of domestic wheat by British millers, as well as use of a higher percentage of domestic coarse grains in animal feedstuffs. All of these agreements are dependent upon the price and quality being comparable.

The quantity of wheat exported by the United States to the United Kingdom in postwar years has fluctuated widely, but on the average it has been nearly twice the average for 1935-39, and about two-thirds the average exports to the United Kingdom prior to the drought in the United States in the 1930's. These postwar purchases have been made largely under United States foreign aid programs, and under the terms of the International Wheat Agreement until 1954, when Britain ceased to be a member and ceased its purchases of U. S. wheat.

Corn and grain sorghums have led other British grain imports from the United States. Barley and rice have been purchased almost entirely from non-dollar sources. Imports of corn from the United States have amounted to 22 million bushels in 1950, 20 million bushels in 1951, 28 million bushels in 1952, and 28 million bushels in 1953. During this period there was little competition because of reduced export surpluses in Iron Curtain countries and Argentina, formerly important suppliers to the United Kingdom.

Fruits and Vegetables

Fruit trade of the United States with Britain since World II generally has been hindered by control of imports occasioned by dollar exchange difficulties and the serious efforts made to direct the business to home-grown, Commonwealth and other non-dollar area supplies for canned, dried and fresh fruit. United States producers of fresh and canned citrus will face increasing difficulties in reentering the British market on a regular basis, because of increasing citrus production and expanding modern citrus processing plants in the British West Indies, British Honduras, Cyprus, and West Africa.

The British West Indies citrus industry is aggressive in its efforts to protect and expand its United Kingdom market for both fresh and canned fruit. In addition to its ten-year contract (due to expire in 1959) with the Ministry of Food for the production of orange concentrate, it has recently lodged vigorous protests in London against the sale of United States fresh and canned citrus, particularly of grapefruit, to Britain, under Section 550 of the Mutual Security Act.

In August, 1947, the British Government placed an embargo on fruit imports from the dollar area. Since then it has been only with the greatest effort, usually only with Government aid, that United States fruit of any

type has been sold to the United Kingdom. At the same time there have been increasing imports of fresh and processed fruit from some Commonwealth areas. In 1953, raisins and orange juice were the only U. S. fruit products exported to the United Kingdom outside the Foreign Operations Administration program, and their sale was assisted by export subsidies under Section 32 of the Agricultural Adjustment Act as amended. Authorizations were subsequently made under Section 550 of the Mutual Security Act for the sale of $5 million worth of dried prunes, $2.5 million worth of fresh and canned citrus fruit, and $2.5 million worth of canned apricots and cling peaches.

The following recent British import tariff changes on selected vegetables and fruits are of interest to the United States trade:

Fresh Fruit		Prior Rates	Revised Rates of Duty
Plums	July 1 - Oct. 1	9s 4d ($1.31) per cwt. (1 1/6 cents per lb.)	16s 9d ($2.34) per cwt. (2 cents per lb.)
Cherries	June 1 - Aug. 15	3d per lb. (3½ cents)	4d per lb. (4½ cents)
Vegetables			
Dry-bulb onions and shallots	Aug. 1 - Nov. 30	10% ad valorem	4s 8d per cwt. (65 cents) Remainder of year 10% general ad valorem
Dried whole peas		10% ad valorem	If value is less than £3 15s ($10.53) per cwt. the net flat rate is 7s 6d ($1.05). If the value is in excess of that amount the regular 10% ad valorem duty applies.

The imports of the above from the Commonwealth areas continue to remain free of duty.

Cotton

Several factors have adversely affected the traditional U. S. cotton market in the United Kingdom since the end of the war, and though the conditions in that market, at the present time, appear to be very much improved, they do not indicate that there will be full restoration of that trade to

prewar levels. The Foremost restriction, namely, control over the expenditure of dollar exchange for United States cotton, has been relaxed, and will be completely removed after September 1, 1954. There has also been an upward trend in demand by British mills.

Competition has increased. Total production of cotton, largely the result of increased yields per acre, and the percentage of high-grade cotton of suitable length and strength of staple has increased in dependent British territories and in other surplus export producing countries. Considerable expansion has taken place in all British cotton-producing territories and protectorates in Africa. Practically all of the cotton produced in British areas of Africa is of medium to long staple of American upland varieties suitable for wide use by the Lancashire cotton mills. The proportion that the United Kingdom imports from dependent British areas in Africa and the Anglo-Egyptian Sudan, in relation to total exports in the United Kingdom, have increased from 9% in 1938 to 25% in the year 1953.

The purchase of cotton from non-British countries has been a greater factor in the displacement of U. S. cotton in the British market than has United Kingdom purchase of Empire cotton. Of the $20 million allocated by the Foreign Operations Administration to the United Kingdom for the purchase of U. S. cotton in 1953 only about 25% of it has been used thus far. Lower prices for dollar cotton from Mexico and non-dollar cotton from other countries during the first half of 1953-54 gave these countries a distinct advantage until early in 1954. Currently Mexican and Brazilian growths are the only major ones selling under U. S. prices.

The situation has changed further since the passage, on April 14, 1954, by the British Parliament of the Cotton Act of 1954 and by the reopening of the Liverpool Cotton Futures Market on May 18. The opening of the Liverpool Cotton Exchange permits futures trading in U. S. cotton, thus giving British mills their first opportunity since 1942 to make their purchases freely on the American market with hedging facilities in Liverpool. Ability to engage in the necessary hedging operations enables them to operate on the closest possible margin in pricing their cloth exports in the world market. However, imports from the United States and other dollar countries until September 1, 1954, can be made only upon special individual licenses while the rest of the world enjoys an open general license. Furthermore, all payments and receipts in cotton transactions will be centralized in one bank account to be known as the cotton scheme account, enabling the Government if it deems necessary to exercise control over expenditures of dollar exchange through the central banks.

A receiver will liquidate such cotton stocks as might still be held by the Cotton Commission at the end of August, when it is to be dissolved, said Viscount Woolton, House of Lords, July 19. He said that cotton from British territories would be bought under contract and fully implemented if that were their wish. The Government's unsold stocks are expected to be about 230,000 bales on August 31, 1954. Of the 95,205 bales of American type held by the Commission on June 30, 36,100 were of United States growth, 30,124 were Nigerian, and 11,111 were East African. From August 1 - May 31, U. S. cotton represented more than 25 percent of total British raw cotton imports.

Tobacco

The United States is supplying a decreasing percentage of the tobacco imported by the United Kingdom, having dropped from about 80 percent of the total used just after World War II to 25 percent in 1952. This is caused by several types of control tending to reduce the quantity of U. S. tobacco used in Britain and to encourage production and importation from other areas.

The Southern Rhodesian Tobacco Marketing Board and the British Tobacco Board of Trade under a five-year purchase agreement (extendable each year after discussion and negotiations for a five-year period) is supplying steadily increasing percentage of tobacco to the British markets. Its supplies to the United Kingdom market have increased from 15.2 million pounds in 1935-39 to an estimated 57.3 million pounds in 1953. With improved methods and practices the quality and yields could be increased substantially in Southern Rhodesia. While the Southern Rhodesian agreement is ostensibly a private one, it has the support and sanction of the two governments. It provides for the purchase of 85 million pounds each year in 1954 and 1955, and 80 million pounds each year for 1956 through 1958. This is provisional upon the availability of adequate supplies of the grades desired at appropriate prices.

Because of the high cigarette tax and other restrictive measures the British consumption has shown slight decreases. Recent warnings have come from the British tobacco manufacturing circles that tobacco stocks might fall again to dangerously low levels unless more realistic allocations of dollars are made by the Government of the United Kingdom.

Conclusion

While a number of the recent measures taken by the British Government still tend to support prices of domestic agricultural products at levels generally as high or higher than world prices, the outlook for increased sale of specific U. S. agricultural products is improved. By means of currency restrictions and various indirect controls, the Government's policy continues protection for specific commodities, production of which was expanded in Britain or Commonwealth areas during the period of postwar controls. However, it may be concluded that the recent steps have given British traders greater freedom to buy and sell in the world markets on the basis of price, quality and types.

A recent statement by the Parliamentary Secretary to the Ministry of Agriculture explains the recent changes in long-term agricultural policy as follows:

> "We have decontrolled, not only because we are a Conservative government and therefore heartily dislike controls unless they can be shown to be absolutely vital, but because we are firmly convinced that the industry will be far better off without controls. Secondly, for most commodities we prefer guaranteed prices and grants to protection by tariff. This government favours the liberalisation of trade and the country stands to gain far more by this than it can lose."

Table 1 - United Kingdom: Long-Term Bulk Purchase Contracts of Agricultural Commodities

Commodity	Country	Expiration Date
Bacon	Denmark	Sept. 29, 1956
	Holland	Sept. 29, 1956
	Kenya	Dec. 31, 1954
	Irish Republic	Apr. 30, 1956
Coffee	Jamaica	Aug. 31, 1954
	Uganda	June 30, 1954
	Kenya	June 30, 1954
	Tanganyika	June 30, 1954
	Gold Coast	July 31, 1954
Meat	New Zealand	Sept. 30, 1967 (Cancelled as of Sept. 30, 1954)
	Australia	Sept. 30, 1967 (Revised in 1954 by minimum price support agreement terminating Sept. 30, 1967)
	Argentina	June 30, 1954) See text
	Uruguay	June 30, 1954) See text
	Irish Republic	June 28, 1956 (Revised)
Milk products	New Zealand:	
	Butter and cheese	July 31, 1955
	Evaporated milk	July 31, 1954
	Milk powder	July 31, 1955
	Australia:	
	Butter and cheese	June 30, 1955
	Denmark:	
	Butter	Sept. 30, 1955
Oils and fats	Fiji	Dec. 31, 1957
	Nigeria	June 30, 1954) Cancelled May 11, 1954
	Gold Coast	June 30, 1954) Cancelled May 11, 1954
	Sierra Leone	June 30, 1954) Cancelled May 11, 1954
	Gambia	June 30, 1954) Cancelled May 11, 1954
	Australia	Dec. 31, 1957
	New Zealand	Dec. 31, 1957
	Tokelau Islands	Dec. 31, 1957
	Cook Islands	Dec. 31, 1957
	Niue	Dec. 31, 1957
	Tonga	Dec. 31, 1957
	Solomon Islands	Dec. 31, 1957
	Gilbert & Ellice Islands	Dec. 31, 1957
Concentrated orange juice	British West Indies	End of crop year 1959-60
Sugar	Australia, South Africa & the sugar producing Colonies	Dec. 31, 1961
Dried Fruit (currants sultanas & lexias)	Australia	Crop years 1949-53 now replaced by minimum support price agreement for at least the crop year 1954
Tobacco	Southern Rhodesian Tobacco Marketing Board with British Tobacco Board of Trade	Each year extendable, after negotiation, for a five year period

Table 2 - United Kingdom: Selected Home Produced Foods
Costs during past year compared with imported supplies, proportion of imported and home-produced supplies, 1953-54

Commodity	Estimated average prices of imported supplies 1953-54	Estimated average prices of home produce 1953-54	Proportions of Imported and home-produced supplies 1953-54	
			Imported	Home-produced
	dollars per ton*	dollars per ton*	percent	percent
Beef	490.0	584.8	35.3	64.7
Lamb	532.1	817.7	60.8	39.2
Bacon	710.4	1,125.7	57.9	42.1
Sugar, beet (raw)	112.1	123.0	79.0	21.0
Wheat	84.7	86.4	60.0	40.0
Barley (feeding)	67.0	70.4	39.0	61.0

*Long tons (2240 lbs.)
Source: Ministry of Food Bulletin, No. 745, March 20, 1954, p. 9.

Table 3 - United Kingdom: United States Agricultural Exports to the United Kingdom on Dollar Basis

Commodities	Average: 1934-38	1946	1947	1948	1949	1950	1951	1952	1953
	(in millions of dollars)								
Cotton and linters	69.7	36.7	69.7	72.4	147.5	100.9	99.6	87.3	53.4
Tobacco, unmanufactured	95.1	214.5	117.0	90.1	93.4	84.2	146.8	36.3	125.4
Fruits, nuts, vegetables and preparations	37.8	36.2	58.2	3.6	8.7	7.9	7.4	7.7	8.0
Meats, lard, and dairy products	28.3	124.0	184.8	29.9	42.6	6.7	77.6	17.6	2.9
Grains and preparations	15.5	50.7	67.8	0.1	26.8	55.2	138.9	100.9	84.9
Other	9.7	126.7	42.4	11.9	21.5	10.5	30.7	24.1	n.a.
Total	256.1	588.8	539.9	208.0	340.5	265.4	501.0	273.9	n.a.

Table 4 - United Kingdom: Volume of Selected United States Agricultural Exports to the United Kingdom Prewar compared with postwar period

Commodity	1925-29 Average	1935-39 Average	1946-50 Average	1951	1952	1953
	. . . .	. . . . . . millions	. . . .			
Cotton (bales)	2.1	1.1	.5	.7	.4	.3
Tobacco (lbs.)	172.2	200.4	205.9	223.4	54.2	177.9
Wheat (bu.)	32.6	11.3	15.7	42.7	17.7	14.3
Fresh apples (bus.) 1/	6.4	4.1	.5	.8	.6	2/
Lard (lbs.)	231.5	93.7	32.2	231.5	103.0	24.2

1/ Except in 1947 the United Kingdom has not allocated dollars for other fresh fruit.

2/ 3,000 bushels of apples exported in 1953 to United Kingdom.

FOREIGN AGRICULTURE CIRCULAR

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
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FATP 6-54

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Brazilian Agricultural Policy in 1953-54 1/

An important facet of over-all Government policy in Brazil during 1953-54 was the re-emphasis on agriculture, following a long period during which Government policy was directed largely toward fostering industry. Exchange rates were revised during 1953 to encourage crop production and export, preferences were given to imports of agricultural equipment and supplies, technical assistance programs were expanded, and a more adequate agricultural credit system was adopted. Some effort was made to increase storage capacity and to improve transport.

Greater agricultural production is Brazil's objective, both in domestic and export crops. To meet urgent requirements for foreign exchange and for feeding urban populations, and to provide the capacity for further industrialization, public policy during the next few years is expected to continue along lines favorable to agriculture. To expand output, the chief instruments for short-term effect will be financial measures, particularly those relating to exchange rates and credit, and improvement in storage and transport. Mechanization and improved cultural practices meanwhile will be urged for long-range benefits.

Production and Marketing Background

Crop and livestock production on an over-all basis showed a slight upward trend over the past year. Coffee output was down because of unfavorable

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1/ This Circular was prepared for publication by the Latin American Analysis Branch of FAS, largely from two despatches of Clarence A. Boonstra, Agricultural Attache at the American Embassy in Brazil: Brazilian Agricultural Policy in 1953-54, Despatch 1484 of June 1, 1954; and Brazil Establishes New Agricultural Credit System Linked to Exchange Profits, Despatch No. 1615 of June 30, 1954. For earlier publications on Brazil's agricultural policy, see: Foreign Agriculture, April 1949, May 1949, and January 1954.

weather, and cotton planting was reduced by unattractive market prospects, but there was a distinct increase in the production of food crops for the domestic market. Livestock numbers were fairly steady at high levels, with no significant changes in marketing or commercial meat production.

Two weather developments were of particular importance to agriculture. The first was a frost in July 1953 which damaged heavily the coffee trees in the state of Parana, reducing the crop to be harvested in 1954. Considering the coffee industry as a whole, the resulting price increase more than compensated for the financial losses. The second event was the end of a drought which for three years curtailed production and caused general hardship in Northeast Brazil. Rains beginning in November 1953 enabled resumption of agricultural activities in that area and curbed the outward population migration.

Markets for Brazilian agricultural products during the past year were exceptionally favorable. Coffee prices rose sharply after the July frost with strong demand for all available stocks. The world cacao market, as a result of short African supplies, has been similarly strong. By raising the exchange rate and cutting prices, Brazil has been able to sell abroad the large stocks of cotton, sisal, and other products which the government has accumulated as a result of price support operations in 1952 and early 1953. Domestic prices have been strong for sugar, grains, beans, mandioca, and other foodstuffs, reflecting increased consumer demand and the rapid monetary inflation.

On bulky food crops, growers were not able to take advantage fully of the favorable market situation because of the deficient storage and transport facilities. This problem, long a difficult one in Brazilian agriculture, is becoming annually more serious as the result of greater production, larger urban population, and deeper penetration of Brazil's interior. In some quarters there is a growing belief that agricultural expansion now is more dependent on better storage and transport than it is on opening new lands or applying improved methods.

Although the government as a general policy encourages greater production for all crops, by far the most important program for production expansion is that for wheat. Price supports for this crop are maintained at levels almost double the cost of imported wheat, being made effective through compulsory utilization by mills of the domestic supplies. Fertilizers are distributed to growers at subsidized low prices, and preferences are given in supply of farm machinery. The production response over the past few years has been notable. According to the official estimate, the 1953 wheat crop was more than 800,000 metric tons, almost twice the 1949 output. Because of growing population, however, the production increment tends only to offset the annual increase in requirements, without reducing the import need.

Exchange Rate Policies

During the past year there were several drastic revisions of the exchange rate structure with the objective being the promotion of exports and the reduction of imports. In comparison with the situation of a year ago, the net effect has been to increase the effective rate for exports by 27% on coffee and by 54% for all other products, of which the most important are cotton and cacao. Technically, the official export rate remains as before at Cr$18.36 per dollar, with the increases being made by applying export bonuses of 5 and 10 cruzeiros, respectively. The increases were made to offset Brazil's increasingly difficult export position resulting from the steady rise over recent years of cruzeiro costs and prices, bringing quotations out of line with world markets when converted at the official rate.

The rate structure for imports was altered even more drastically. In October 1953 a system of exchange auctions was established whereby importers bid for the available exchange, paying premiums over the official import rate which is Cr 18.82 to the dollar. All commercial import goods are classed in five categories reflecting the government's judgment as to their essential character. The most essential class is category 1, for which the exchange allocation is greatest. Wheat, the principal United States agricultural export to Brazil, usually is imported by the Government, as are crude petroleums, aviation gasoline, and fuel oils. A fixed charge of cruzeiros per dollar is added to the official rate for these Government imports, making the effective rate 25.82.

Premiums paid at the auctions have differed greatly according to currency, date of sale, market in which sold, and other factors. For U. S. dollars, however, the average premiums have varied from roughly Cr$20 for category 1, to well over Cr$100 for category 5. Compared to the official rate at which imports were made prior to October 1953, the effective rates in recent months have been higher by 100 to 1,000 percent.

For exports, the bonuses are far lower than the import premiums and the government thereby acquires a large exchange profit.

The Government has promised to use the exchange profits for agricultural credit and for agricultural development (after paying its losses from earlier exchange operations and commodity price support programs). It has established also a separate auction of import exchange exclusively for agricultural supplies and equipment. Premiums at the special auction are less than half those paid on regular auctions, enabling the importation of agricultural goods at an exchange rate not much removed from the export rate.

Agricultural Credit System

On June 25, 1954 a decree was signed establishing a National Council for Rural Loans Administration (Conselho Nacional de Administracao dos Emprestimos Rurais - CNAER) to be financed with profits derived from the system of foreign currency auctions. This provides in effect a new and more extensive system of agricultural credit for Brazil, coordinating within the system all the Government agencies now furnishing credit to agriculture, including the Bank of Brazil with its Agricultural and Industrial Credit Department and Colonization Department, the National Cooperative Credit Bank, the Amazon Credit Bank, the Bank of the Northeast, and the National Agricultural Insurance Company. The Council reports directly to the President of Brazil.

One of the principal functions of CNAER is planning of agricultural development, with emphasis on modernizing and improving production methods and guarding against misuses of the soil. It is also authorized to establish criteria for granting credit, to supervise loans, to fix interest rates, to orient rural bank policy, to facilitate special exchange auctions for agricultural supplies, to take an agricultural census, to purchase and market agricultural products, and to operate an agricultural extension service. The three types of loans authorized in the legislation are production loans ranging up to four years for annual crops and up to eight years for cattle breeding; intermediate credit up to 15 years for modernization purposes; and long-term credit up to 20 years for the purchase of small farms or for land clearing or development.

Price Support Activities

In addition to the functions listed above for the new agency, there is a sweeping authorization in the decree permitting the CNAER to use its funds for purchase of agricultural supplies and products, operating through the Agricultural and Industrial Credit Department or through the Production Financing Department of the Bank of Brazil. Previously the Bank was in direct control of all price support measures. During the past year the Government and the Bank of Brazil sold large quantities of agricultural commodities acquired during 1952 and early 1953 in the course of price support operations. Cotton was the most important single item, but there were also quantities of coffee, carnauba wax, wool, sisal, jute, and cacao. Sale of the cotton surplus involved substantial losses up to October 1953, when through application of the revised exchange rate it became possible to export this product at prices in line with cost. The Government currently is not supporting prices of export commodities through direct purchase, except in the case of coffee. In most cases the cruzeiro equivalent of foreign prices is in line with local quotations.

Under a decree signed on June 3, 1954 the minimum price for the 1954 coffee crop (extending through June 30, 1955) was set at the equivalent in cruzeiros of 87 U. S. cents per pound for Santos type 4 f.o.b. Santos. This compared with a guaranteed minimum price of 53.03 cents established on July 9,

1953. The law provides for Government purchase at the guaranteed price or financing at 80 percent of that price. The price of 87 cents established on June 3 was higher than the actual market on June 2. In practical effect this price will operate as an export minimum.

Crop and Livestock Insurance

Under provisions of Law No. 2168 of January 11, 1954 the Government was authorized to establish a system of insurance covering risks peculiar to crop and livestock production. A National Agricultural Insurance Company is now being organized, with capital provided by the Government and by obligatory subscription of insurance companies. There is an apparent intent to begin experimental coverage against risks of frost and other damage within the near future.

Mechanization

The Government continued during 1953 to emphasize the need for mechanization but actual imports of machinery were very small. Rather than granting import permits to the established trade, the government undertook to import and distribute machinery for its account, obtaining for this purpose a loan of US$18 million from the Export-Import Bank. Because of long delay in concluding the credit negotiation, with subsequent need to build an organization to handle the business, imports were held up from early 1953 to mid-1954.

To get machinery moving, several of the U. S. and other foreign manufacturers in early 1954 provided the government substantial private credits against which shipments are now being made. All this machinery, plus that provided on the Eximbank credit, will be entered to the account of the Ministry of Agriculture, which plans to sell to growers on three-year credit.

The state of Minas Gerais also obtained a US$5 million credit from the Eximbank to finance the importation and sale of farm machinery. Additional private credits may be provided by manufacturers to this state and to several others.

From now through 1955, there apparently will be large receipts of farm machinery. Tractor imports alone may be 10,000 to 15,000 units. The total number of agricultural tractors in use during 1953, in comparison, is estimated by various sources at 22,000 to 30,000.

Government Organization to Implement Policy

The Director of the new credit agency is authorized to assume many of the responsibilities heretofore resting on the Minister of Agriculture, the Minister of Finance, and the president of the Bank of Brazil. It may not be clear, for some time, whether the Director will take direct control of the functions or whether authority will be delegated to other officials.

Until this new organization was established the implementation of agricultural policy was carried out to a considerable extent by those agencies that regulate foreign exchange and foreign trade, particularly the Ministry of Finance and the Bank of Brazil. This was true because of the importance of export crops in Brazilian agriculture. The direct responsibilities of the Ministry of Agriculture have been regulation, research, extension, statistics, and agricultural reform, plus special functions such as the project for importation and resale of farm machinery. In addition to the various Ministeries, there are semi-official and semi-independent Institutes for coffee, cacao, and sugar that regulate these industries.

Several of the states operate research and extension services independent of the federal Ministry of Agriculture. Supplementing all of this are the foreign technical assistance programs, including the Foreign Operations Administration of the United States, the Food and Agriculture Organization of the United Nations, the Organization of American States, and private entities such as the Rockefeller corporations. Also there are the agricultural colleges, mostly state-supported, which in some cases have programs for research and extension. The Brazil-United States Joint Economic Development Commission finished its work and was dissolved in December 1953. Throughout the past year, work continued in organizing the Brazil-United States Escritorio Tecnico de Agricultura to administer a cooperative agricultural development program established by a June 1953 agreement.

Trade Agreements

Brazil continues as a member of the General Agreement on Tariffs and Trade. It has signed the International Wheat Agreement and the International Sugar Agreement, but to date the Congress has not ratified either one. Brazil also was host to the International Cotton Advisory Committee that met in Sao Paulo in June 1954.

Brazil continues to trade largely with countries having non-convertible currencies, within a system of bilateral trade agreements. Most of these agreements operate as a means to control balance of payments rather than to provide markets for specific quantities of goods. The agreements have been of particular importance as outlets for surplus cotton, and a source of wheat

supply. For certain commodities, such as coffee and cacao, the increases in bilateral trade exports have been illusory, at least in part, due to overvalued currencies and consequent switching of products to other countries.

Establishment of the auction exchange system in October 1953 introduced a problem in administering bilateral trade, owing to the classification of goods in various categories for exchange purpose. The classification for fruit, for example, virtually blocked the imports of Argentine fruit which Brazil was committed to purchase. This was adjusted by establishing a separate auction of Argentine trade dollars to be used only for fruit imports.

Agricultural Trade with the United States

Agricultural imports into the United States from Brazil always exceed our agricultural exports to that country. The 1953 figures, for example, show agricultural imports from Brazil valued at $725.9 million and agricultural exports valued at $17.6 million. Exports declined sharply in 1953, however, from an all-time high of $101.2 million in 1952.

Table 1. - Value of U.S. Agricultural Trade with Brazil
(Million dollars)

	Agricultural Exports	Agricultural Imports
1935-39	1.7	102.5
1940-44	3.5	162.7
1945-49	42.4	409.8
1950	18.1	688.3
1951	38.7	865.5
1952	101.2	761.7
1953	17.6	725.9

This decline was accounted for largely by the drop in exports of wheat and flour from $94.7 million in 1952 to $11.6 million in 1953. The large wheat exports in 1952 were made because Brazil was unable to obtain usual supplies from Argentina due to a crop failure in that country. Exports of dairy products, barley malt, and fruit also declined, but there was an increase in the exports of hops in 1953 over the previous year.

Table 2. - Principal U.S. Agricultural Exports to Brazil
(Million dollars)

	1952	1953
Wheat and flour	94.7	11.6
Dairy products	1.2	.7
Barley malt	1.6	.9
Fruits	1.7	.7
Hops	1.0	1.3

Table 3. - Principal Agricultural Imports into U.S. from Brazil
(Million dollars)

	1952	1953
Coffee	670.7	627.9
Cacao	26.9	36.8
Carnauba wax	13.2	13.0
Castor oil	11.1	9.1
Sisal and Henequen	8.4	2.2

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RECENT DEVELOPMENTS IN EXCHANGE RESTRICTIONS

The International Monetary Fund has, recently, published its Fifth Annual Report on Exchange Restrictions. Chapter II of Part I of this report contains a brief and concise account of recent developments in the field of exchange restrictions abroad, which, at present, are a major obstacle to U. S. agricultural exports.

This part of the Report is, therefore, reproduced in the following. Bracketed comments and footnotes referring to recent developments and other Foreign Agriculture Circulars have been added.

Further information on foreign exchange problems may be obtained from the Monetary and Policy Research Branch, Foreign Agricultural Service.

In analyzing trends and tendencies in restrictive practices it is convenient to classify the countries practicing restrictions in four broad groups: (1) Western Europe, (2) Outer Sterling Area, (3) Latin America, and (4) Far East and Middle East.1/

1. Western Europe

For some years the driving force in the freeing of trade between Western European countries (including their dependencies) has been supplied by the trade liberalization policy of the Organization for European Economic Cooperation. By January 1954 over three quarters of the trade between OEEC members on private account had been freed from quantitative restrictions.

The progress made by European countries in reducing restrictions on their trade with countries outside the OEEC group has varied widely. Generally speaking, countries with an over-all surplus on current account and increasing exchange reserves have relaxed their restrictions more rapidly than other countries. Each of the surplus countries has set its own pace in reducing or removing restrictions not covered by the OEEC Code of Liberalization and, more particularly, those

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1/ An analysis of changes in the international financial position of foreign countries, and the impact of such changes on U. S. agricultural exports is contained in Foreign Agriculture Circular FATP-C 3-54 of May 10, 1954

imposed on dollar imports. Each country has to face special problems in attempting to reduce its restrictions, and especially restrictions maintained continuously since the war or longer; certain external restrictions have been linked for many years with internal controls and the one could not be reduced or removed without affecting the other. The consultations showed that many of the leading trading countries were removing or reducing restrictions in accordance with a long-term policy of preparing their economies for eventual convertibility; the pace of development in this direction was uneven because each country has to leap its own series of hurdles, political and economic, before such a policy can be made fully effective.2/ The differences in the manner and rate at which restrictions on trade with dollar countries and other countries outside the OEEC group have been relaxed have reflected the differences in the exchange position and the internal situation of the various European countries and, to some extent, their attitude toward such restrictions.

In the following paragraphs some of the main features of these relaxations are traced.

The United Kingdom began to reduce its discrimination against dollar imports in 1952 when the country was in balance of payments difficulties, was losing reserves at a rapid rate, and the cumulative deficit of the Sterling Area with the EPU had reached the point where settlements had to be made in gold; hence European and dollar currencies were, for a time, of equal hardness. For a while, therefore, there was no immediate exchange purpose in discriminating between the two areas. Developments in 1953, however, showed that the policy followed by the authorities was not simply a temporary expedient to meet a particular payments position. It had already been recognized that discrimination in the purchase of certain raw materials and foodstuffs had sometimes resulted in higher prices with consequent effects on internal costs and prices generally, including those of export goods. Policy was also influenced by the Government's intention to allow the purchase of primary products to revert to private hands. Private importation of minor products was possible without much change in the restrictive arrangements, but private market arrangements could not be restored for basic raw materials and foodstuffs unless greater freedom to buy abroad was given.

Certain commodity markets, namely those for rubber, tin, and cocoa, had been reopened in the United Kingdom soon after the end of the war. These markets were concerned, however, with products obtainable mainly from the Sterling Area, so that there was little risk of dollar loss through trading in them. The reopening of the markets for lead, zinc, and copper in late 1952 and the first half of 1953 marked an important step in the relaxation of exchange and trade restrictions by the United Kingdom. These metals are procurable in the dollar area as well as the Sterling Area, and the reopening of the markets meant that traders were free to buy and sell on a world-wide nondiscriminatory basis. The markets for grain were reopened during 1953. This also entailed nondiscriminatory imports, though

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2/ The consultations referred to are the 2nd annual consultations between the International Monetary fund and those of its members who retain restrictions on payments and transfers for current international transactions, as to their further restriction.

resales of dollar grain outside the Sterling Area were permitted only against dollars; after September 1954, the cotton market will be open on the same basis. Since April 1, new fur skins can be imported freely from any source including the dollar area and resold to any destination for sterling, except that exports to the dollar area, whether direct or through third countries, must be for dollars. The United Kingdom thus adapted its exchange regulations to provide for the progressive introduction of what has become known as "commodity convertibility."

During 1953 restrictions were also relaxed in a more direct way, by additional liberalization of OEEC imports, so that the percentage was restored to 75 and has since risen to near 80. In accordance with the policy of removing internal controls, including rationing, imports of foodstuffs and raw materials were allowed to rise to the level required to meet the full unrestricted domestic demand. As a result of these measures, about half the United Kingdom's imports, both from the dollar area and from other non-sterling countries, were free from restrictions by the end of 1953. Imports from the Sterling Area remained as before, virtually free of restraint.

A significant step in the simplification of the U.K. exchange control system was taken in March 1954, when the classification of all nonresident sterling accounts other than American, Canadian, and blocked accounts, and, for the time being, Hungarian, Iranian, and Turkish accounts, was unified.3/The accounts affected by this change had previously been classified according to the country or monetary area in which the account holder resided. Under the new arrangements, all accounts other than those mentioned above are treated as Transferable Accounts, the balances on which can be transferred freely to or from other Transferable Accounts regardless of the purpose of the transfer or the country of residence of the account holder. The balances in these accounts continue to be available for payments to the Sterling Area, including payments for exports from that area to any country in the Transferable Account area. At the same time, the London gold market was reopened after being closed for nearly 15 years. Dealings in the market are conducted in sterling and, although gold sales may be made by anyone, purchases can be made freely only on account of those who are not residents of the Sterling Area and who have American Account or Canadian sterling or sterling acquired by the sale in the United Kingdom of gold or dollars. To facilitate operations in the gold market for those who are not residents of an American Account country or of Canada, a new category of convertible sterling account--namely, the Registered Account--was created. Purchases of gold by residents of the Sterling Area continue to be subject to permission and to be strictly limited. The widening of the sterling Transferable Account area and the reopening of the markets have been interpreted as making an important contribution to the strengthening of sterling as an international currency and London as an international financial center. Transferable Account sterling rates abroad, which in May 1953 were around $2.70, were around $2.78 in May 1954, that is, within one per cent of the par value of $2.80 per pound sterling.

3/ Iran and Hungary were subsequently added to the Transferable Sterling area.

In the Netherlands the relaxation of restrictions has followed a somewhat different course. A surplus position was maintained in EPU and the over-all balance of payments was strengthened. The first effort was to liberalize the treatment of imports from OEEC countries, and by May 1953 the liberalization percentage had been raised to 92. In October 1953, with increasing reserves and an improved dollar situation, the Government placed about one third of the dollar imports of the Netherlands on a free list, and much of the remaining two thirds was in fact also licensed freely. During the same period exchange restrictions on invisibles and capital transfers to all countries were eased, and by March 1954 several further steps had been taken to relax restrictions on capital transactions. Substantially all nonresident-owned blocked capital, much of it in the Netherlands since before 1939, has now been freed. Securities and other capital assets held by residents of EPU countries may be liquidated and the guilder proceeds transferred to the owner's country of residence through the EPU mechanism. Capital assets owned by residents of the United States, Canada, other dollar countries, and Switzerland may also be realized and the proceeds exported in the form of Netherlands, Indonesian, or foreign securities denominated in guilders. On the other hand, in view of the Netherlands' extreme creditor position in EPU, new capital investments in the Netherlands are now, in general, allowed only when they are made in convertible currencies.

Belgium and Luxembourg had already relaxed their over-all restrictions in late 1952, and during 1953 their continuing strong balance of payments position enabled them to maintain and expand this policy. At first, the relaxations were largely in the form of administrative decisions. In March 1954, the authorities issued an extension to the list of goods that could be imported freely into the BLEU from any source, and in late May 1954 [virtually] all dollar discrimination in import licensing was abolished.4/ Generally, most imports into Belgium-Luxembourg are now free of restrictions other than tariffs. [Exceptions seem to be decidious fruits, grapes, vegetables, seeds, certain dairy products and lard.]

The Federal Republic of Germany attained a strong surplus position in Western Europe during 1953 and in consequence progressively liberalized its imports from other OEEC countries. The relaxation of other restrictions was closely related to the settlement of the debt question. When the London Debt Agreement came into effect in September 1953, the way was open for the removal of restrictions on the transfer of earnings on investment and other invisibles. Toward the end of 1953 and during the early months of 1954, a number of exchange control measures were taken as a result of which original and acquired blocked DM balances (Sperrmarks), according to their nature and amount and the date of their creation, could be transferred abroad entirely or by installments or used for various payments in Germany5/

4/ The Benelux countries issued a common list of commodities from the dollar area which may be imported without quantitative restriction. Agricultural items on this common list have been reported on in Foreign Agricultural Circular FATP-C 4-54 of July 9, 1954.

5/ Germany completely eliminated the institution of "blocked" marks, which dated back to the thirties and now allows free transfer of marks among all nondollar countries.

In this way, the gradual liquidation of DM blocked accounts has been arranged. In February 1954, the German authorities removed restrictions on dollar imports covering 47.5 per cent of private imports computed on the basis of private dollar imports in 1953. As from April 1, 1954 they established a new system providing for the considerably extended use of nonresident DM accounts. These accounts are of two types: freely convertible DM accounts to which payments to nonresidents authorized in convertible exchange may be credited and from which funds may be remitted abroad or used for any current payment in Germany including payments for exports; and "partly convertible" DM accounts to which other payments (as well as payments authorized in freely convertible currencies) to nonresidents may be credited. These latter accounts may be transferred to EPU countries and other countries with which Germany has a bilateral payments agreement, or used for payments in Germany not required to be made in convertible currency. "Partly convertible" DM accounts are freely transferable between themselves but not to freely convertible DM accounts.

France, which had suspended the liberalization of its imports from OEEC countries in February 1952, began, in October 1953--with an improving balance of payments position--the process of "reliberalization" which had carried the liberalization percentage to 53 by April 1954. The latest step was accompanied by the introduction of a "special temporary compensation tax" of 10 or 15 per cent, affecting certain imports from all sources.

Despite adverse balance of payments developments, Italy maintained in 1953 the high degree of OEEC liberalization which had been in effect in previous years. Austria, with an improved situation was able to increase its OEEC liberalization, and by March 1954 the percentage had reached 60. Following the devaluation of April 9, 1953, Greece substantially liberalized imports from nearly all countries and relaxed considerably restrictions on payments for invisibles.

There was also a general movement among other European countries in the direction of reducing restrictions, mainly in connection with the OEEC liberalization policy. Discussions with these countries showed that most of them regarded their reserve positions as insufficiently strong to warrant a more rapid reduction of over-all restrictions. However, countries whose reserves have improved relatively more rapidly have allowed a freer licensing of dollar imports.

Finland's balance of payments and internal difficulties, which had appeared in 1952, continued in 1953, although more recently the situation has tended to improve. Finland made use of the Fund's resources in meeting this situation. In a small sector of its trade Finland established a Clearingkunta (clearing house), in order to bring certain private compensation deals under more effective control. Under this arrangement, certain exports are subsidized from fees levied on certain imports. The arrangement is regarded by the authorities as temporary and they are remaining in consultation with the Fund on the question. Turkey, faced by balance of payments difficulties, including the accumulation of arrears, had to intensify its restrictions last year. Fund resources were made available to assist in coping with these difficulties. Turkey introduced a device similar to Finland's, by which certain exports benefit from subsidies that vary according to the currency received in payment for the export. These subsidies are paid from an equalization account at the Agricultural Bank from funds derived from premiums paid on specified less essential and luxury imports.

2. Outer Sterling Area

Any serious decline in the central reserves in the past has been followed by a general intensification of restrictions by Sterling Area countries; similarly, the growth of reserves has resulted in a tendency to relax restrictions. But apart from these general factors, the method, direction, and degree of restriction are determined by each independent Sterling Area territory in the light of its own balance of payments position, usually reflected in the movement of its sterling reserves.

The fact that sterling is one of the currencies in the EPU accounts has also exercised an influence on policy. The restrictions imposed by the Outer Sterling Area countries appear to involve very little discrimination as between non-dollar countries in general. Australia, Burma, Ceylon, India, New Zealand, and South Africa showed a general tendency toward the relaxation of restrictions in 1953. The pace of their recovery from the difficulties of preceding years varied widely, however, and it was not until the end of the year that it could be said that most members of the group were relaxing their restrictions. Ceylon intensified restrictions during the first half of 1953. Ceylon had found itself in serious balance of payments difficulties toward the end of 1952, and these difficulties continued into 1953. Several internal measures were taken to reduce inflation; toward the end of the year these showed good effects in strengthening the balance of payments. There was some relaxation of restrictions including those on dollar area imports.

India, as a consequence of an improved balance of payments situation, found it possible to reduce restrictions on dollar and other imports during the second half of 1953, and a further reduction of restrictions has been announced in the import budget for the first half of 1954. The repatriation of capital from India to Sterling Area countries, and to Denmark, Norway, and Sweden, continues to be authorized freely, and the regulations governing the repatriation of investments by residents of other countries have been further liberalized.

Burma's balance of payments remained in surplus throughout the year and its reserves increased. About two thirds of Burma's imports from non-dollar countries are now admitted under open general license, and the remainder is generally licensed according to demand. Therefore, the restrictive system of Burma, insofar as it applies to non-dollar countries, is now largely nominal. Imports from the dollar area form only a small fraction of total imports, but they are still subject to restriction.

With an improved balance of payments, the Australian Government during 1953 and the first quarter of 1954 relaxed in several stages the restrictions on imports from ono-dollar areas. Licenses for essential imports were issued much more free-16, and exchange quota allocations for other imports were increased. Japan is still given separate treatment; however, toward the end of 1953 and again at the end of the first quarter of 1954, restrictions on imports from Japan were relaxed in order to achieve a better balance in the accounts between the two countries. Permits for imports from Japan were increased in line with the increases in permits for imports from other non-dollar countries. Restrictions on imports from the dollar area have apparently not been substantially relaxed.

Import restrictions imposed by New Zealand were generally relaxed during the year, although, as in other Sterling Area countries, imports from the non-dollar area were liberalized to a greater extent than those from the dollar area. The tendency to ease restrictions has been carried further in 1954 when import allocations will be greater than in 1953--in the case of non-dollar imports, by 40 per cent to 75 per cent of 1950 imports. South Africa announced in October 1953 that imports would be admitted on a nondiscriminatory basis as from January 1, 1954, although exchange and trade restrictions would still be continued.

3. Latin America

The countries of Latin America are subject to widely divergent influences and, in the past year, the forces bearing on their external position, such as demand and prices for their primary exports and internal conditions, have varied considerably from country to country.

Nine Latin American members of the Fund no longer apply restrictions under Article XIV of the Fund Agreement, /e.g. on balance of payments grounds, namely El Salvador, Guatemala, Honduras, Mexico, and Panama, Cuba, Dominican Republic, Haiti/...Venezuela has no Article XIV restrictions on international payments. The currencies of five other countries--Colombia, Costa Rica, Ecuador, Nicaragua, and Peru--might appropriately be characterized as in fact substantially convertible, although a few restrictive practices remain.

No general movement toward relaxation can be indicated among the countries still applying substantial restrictions. In the period under review in fact, restrictions remained about the same as in earlier years, and a number of countries appear to have followed a more restrictive policy. There are wide differences between the practices of different countries, including the use of multiple currency practices. As in the past, frequent modifications of these practices occurred and there was some proliferation of exchange rates. Each country, while influenced in some degree by the techniques and practices of neighboring countries, introduced measures of its own to meet current situations.

The pressure on the balance of payments of Brazil continued in 1953, and quantitative restrictions on imports and payments were intensified in an endeavor to accumulate funds to pay off arrears. A free exchange market was introduced in February 1953, which gave relief to a number of minor exports in the form of higher fluctuating effective rates. After a few months of operation, the Brazilian Government considered that this experiment was not working in a satisfactory way. Serious problems had also arisen from the individual licensing system for imports. In an attempt to deal with these difficulties, an auction system for import exchange was introduced in October 1953, while priorities for import commodities on the basis of "essentiality" were maintained. Under this system, imports are classified into five categories, and a certain amount of exchange is allocated to each category from time to time. This exchange is distributed among the individuals and firms by allowing brokers on behalf of importers to bid against each other for exchange certificates which entitle the successful bidder to purchase at the official rate (plus tax) the exchange that is made available to each category. For a variety of reasons, exports of coffee and all other exports have been granted premiums. These changes have created a complicated exchange rate system, which

is considered to be temporary until stable rates can be established as part of the process of simplifying the rate structure. The free market has continued to be maintained for invisibles and capital transactions.

Inflationary conditions in Paraguay continued into 1953. Many modifications were introduced during the year in the exchange system that had been established in January 1953. On January 1, 1954 the par value was changed. Exchange operations appear to have contributed to internal inflation as a result of losses incurred in the operation of the multiple exchange rate structure. More imports have been allowed through the free market, though a substantial proportion of these has been paid for from capital funds held abroad by residents.

Quantitative restrictions and multiple currency practices are still applied in Bolivia. Inflationary developments, as evidenced by the high rates sometimes quoted for free exchange, have increased domestic prices and costs, and this situation, together with the decline in 1953 in the international prices of some of the minerals produced by Bolivia, resulted in export difficulties for these products.

Chile, faced by increasing internal and external financial difficulties in 1953, introduced several changes in the restrictive system. While quantitative restrictions were maintained, the exchange structure was to a considerable extent unified at the rate of 110 pesos per U.S. dollar, which was subsequently agreed as the par value, the main exceptions to this rate being less favorable buying rates for the proceeds of exports of copper and certain agricultural products and preferential selling rates for governmental transactions. These measures were expected, among other things, to contribute toward an increase in government revenues, since most Chilean imports would no longer enter at preferential rates. The loss to the Government through the subsequent elimination of penalty export rates was intended to be offset by other types of taxation.

Inflationary pressures became somewhat greater in Uruguay during 1953, as a result of government deficits and the impact on banking policies of a large increase in external reserves. For the most part, the restrictive system remained unchanged during the year. This system is intended at least as much to further economic development, particularly to protect certain industries, as to cope with the difficulties of domestic inflation or variations in export earnings. There were no fundamental changes in the complex basic structure of export and import rates, although "mixing" arrangements--i.e., mixing the proportions of exchange receipts surrendered at the various prevailing exchange rates--were introduced or changed for a number of exports.

The minor changes in multiple rates which occurred in 1953 were mainly of two types: (1) changes in export rates by varying the extent to which certain export proceeds had access, or partial access, to free markets, and (2) some relaxation of import prohibitions.

4. Far East and Middle East

Almost all of the Far East and Middle East countries found it necessary to continue their restrictions during the period under review, owing chiefly to balance of payments difficulties.

Japan's adverse balance of trade more than doubled in 1953 mainly because of her lopsided trade balance with the Sterling Area: while her exports to countries in the Sterling Area as a whole declined, her imports from them as a whole increased to some extent. Consequently, Japan's sterling balance was rapidly depleted, but this situation was relieved somewhat by drawing on the Fund's resources. During 1953, in order to meet difficulties in her payments and internal situation, Thailand decided to channel the demand for exchange for a certain proportion of her imports into the free market and to impose more severe quantitative restrictions on imports. These actions have been further emphasized in 1954. The tendency in China (Taiwan) has also been to intensify import restrictions, although the elimination of several exchange rates has simplified the exchange rate structure. A 20 per cent defense tax on exchange payments was introduced in September 1953.

Restrictions imposed by Middle East countries were, in general, maintained last year on roughly the same level as in the preceding year. Egypt, in addition to maintaining quantitative import restrictions, introduced an exchange arrangement of the retention quota type in February 1953, and expanded it during the year. "Import Entitlement Accounts" are made available as a bonus to exporters who surrender their export proceeds in U.S. dollars, sterling, or deutsche marks. Holders may, within a specified period of time, purchase exchange at the official rate in payment of certain commodities. These rights are negotiable at market prices. Because of the marked improvement in export receipts, Ethiopia was able to grant licenses freely for imports from all sources; and, in Iran, the receipt of foreign aid made it possible to increase imports. Iraq and Jordan continued their restrictive practices. Pakistan intensified its over-all import restrictions during the first half of 1953, more severe restrictions being imposed on dollar than on non-dollar payments. But toward the end of the year the position improved, and it was announced that for the first half of 1954 restrictions would be relaxed, including those on certain imports from the dollar area [such as tobacco].

FOREIGN AGRICULTURE CIRCULAR

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
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SWEDEN LIBERALIZES IMPORTS OF UNITED STATES FARM COMMODITIES

Effective October 1, the Swedish Government has removed import licensing requirements from a large number of commodities imported from the dollar area. The list includes such important agricultural commodities as cotton, rice, dried fruits including raisins and prunes, fruit juices, hides and skins as well as canned fruits and berries, canned vegetables and soups, packaged cereal foods, etc.

Previously all private imports of dollar commodities into Sweden were subject to license requirements and licenses were granted in accordance with an official "Dollar Import Plan" which aimed to devote dollar earnings mainly to the importation of "essential" imports, including tobacco. Furthermore about two-thirds of the food and feed commodities imported into Sweden from the United States in 1953 were subject to state trading operations; wheat and flour, eggs, meats and tobacco are among the commodities imported by government monopolies.

The announced liberalization is significant also because it involves a large number of items on which Sweden granted tariff concessions to the United States under the General Agreement on Tariffs and Trade.

Over a period of several years the Swedish gold and dollar position has improved more or less continuously. It has been reported that the liberalization measure is aimed at reducing the Swedish costs of production and living and thus to improve the competitive position of Swedish products in world markets.

In addition, effective October 1, Sweden also placed a number of dollar commodities on a so-called "transit list." Licenses will be freely granted for these commodities if payment for them is made in "transit dollars" (available in the foreign exchange banks at a premium) or in the non-dollar currency prescribed under Sweden's payment arrangement with the country of purchase. The transit dollar list currently includes such important U. S. exports as citrus fruits, grapes, peaches, plums, cherries, berries, flaxseed and crude linseed oil, and tobacco. (Pears will be included on the transit list not later than November 15 and apples not later than January 1) While transit dollars are purchased at a premium (currently 3 percent) which in effect raises the selling price of the U.S. commodity, the low level of this premium may open the door for a substantial volume of indirect imports from the United States.

Items of interest to United States farmers which may now be imported from the dollar area without an import license are as follows:

TARIFF NUMBERS 1/	COMMODITY 1/
	Live Animals and Animal Products
6.2	Fowl and "unspecified" animals (other than horses, neat cattle, sheep, swine, beavers, fur animals, fish, crustaceans, and shellfish.)
27.	Bone and horn.
28, 29	Horsehair bristles.
33.	Dead animals, non-edible, even if stuffed or otherwise preserved; animal scrapes n.s.m.; blood and parts of animals n.s.m. (other than edible parts, intestines and feathers.)
	Vegetable Products
34.	Non-edible rice roots.
45, 46	Sugar beets; also chicory roots.
48, 49	Edible roots n.s.m. (except manioc roots and arrowroots.
52.1 thru 52.4	Tomatoes and tomato puree
53.1 thru 57.2	Kitchen garden plants, fresh or cooked, including onions.
58.1, 58.2	Kitchen garden plants, salted or dried.
59, 60.1, 60.2	Capers and edible mushrooms.
61.	Hops
62.	Hay and straw.
68.1, 68.2	Dried or salted apricots, bananas, prunellas, cedrates, peaches, prunes, pears, quetsch-plums, apples, apple peels and cores, and chopped apples.
69.1, 69.2	Dried or salted raisins, currants, figs, orange, lemon and bitter orange peel.
70.1 thru 72.2	Dried or salted nuts, almonds, apricot, peach, plum, and goundnut kernels, nut kernels, dates and others, n.s.m.
86, 90	Unground rice and rice grits.
94.2	Baking powder and raising powder.
100	Flower seeds and spores.
101	Dyewood, other vegetable materials used in dyeing or tanning.
	Fat, Oils and Waxes of Animal or Vegetable Origin
108	Wool grease, lanoline, degras and other tanners' fats.
115, 116	Insect wax; grafting wax, other waxes.

Products of the Foodstuffs Industry

117.1	Soy
117.4	Dried soups
131½	Corn flakes and similar products of cereals or other vegetables substances, obtained by a puffing or roasting process.
135	Yeast
136	Kitchen-garden plants , n.s.m.
137.1	Candied pineapples not packaged for retail sale.
137.2	Jams and jellies, also bitter orange, orange and lemon marmalades
137.3, 138	Other edible fruits and berries preserved in alcohol, vinegar, oil, or pickled.
139	Mustard in paste
140	Coffee substitutes without addition of coffee
143.1	Preserved pineapples and grapefruit
143.2	Preserved apricots, peaches, pears, and mixed fruits
143.3	Preserved jams and marmalades of oranges, bitter oranges, lemons, grapefruits, pineapples, apricots, gooseberries, peaches, and plums
143.3½	Preserved plums and quaves in syrup
143.4, 143.5	Other preserved fruits and berries
143.6, 143.7	Preserved asparagus, tomatoes, and pickles; other preserved kitchen garden plants and roots
143.8	Preserved concentrated chicken broth
143.9	Preserved beans with pork
143.10	Other unspecified preserved products
147.1 thru 148.4	Unsweetened and sweetened juice of citrus fruit containing not more than 2¼% of alcohol by volume, not classified as malt liquors
161	Fodder, other than oilcake; including bone precipitate and other calcium biphosphates.

Chemical and Pharmaceutical Products

183, 184, 185	All vinegar and acetic acid
217	Albumen and casein
218	Rennet
228	Tanning extracts and artificial tanning materials, n.s.m., wholly or partly organic; including tannic acid (tannin)
252	Linseed oil, discolored or boiled
256, 257, 258	Essential vegetable oils
291	Bone meal and horn meal

Hides and Skins

293 thru 297.2	Hides and skins, dressed and not dressed, which cannot be classified as fur-skins

Textile Materials and Manufacturers Thereof

395	Wool
	Cotton
	Flax, and other vegetable textile materials and animal hair
397.1, 397.2	Wadding of all kinds, including carded cotton
401 thru 408	Yarns wholly or partly of wool.
413 thru 429	Yarns of cotton
437 thru 444	Yarns wholly or partly of flax, hemp, ramie, and other vegetable textile materials
446 thru 457	Rope and cordage, also twine and sail yarn

1/ Tariff numbers and commodity description are based on the Brussels translation of the Swedish tariff.

FOREIGN AGRICULTURE CIRCULAR

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
WASHINGTON, D.C.

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Recent Events in the Foreign Agricultural Trade and Exchange Situation of Chile 1/

Recent local and international political and economic events are being reflected in Chile's agricultural trade and exchange position. The conclusion of the Korean armistice was attended by a general softening of the market for Chile's copper, which is becoming almost her sole source of dollar exchange, and for nitrate and other mineral exports, with consequent prejudice to the general foreign payments situation. Weak world prices and Chilean unwillingness to sell at these prices have also affected Chile's agricultural export earnings. An increasing share of Chile's trade, both exports and imports, has been diverted from dollar areas, through bilateral trade agreements and because of dollar difficulty.

Whereas Chilean crops were good in 1953 and little food was imported, 1954 farm production is low, and there is a substantial deficit of food from domestic production. The recently signed trade agreement with Argentina will do much to assist in supplying Chile's food needs, but certain items must be obtained elsewhere, and it is still not clear how Chile will finance such transactions. Much interest has been shown in obtaining United States surplus commodities.

Foreign Agricultural Trade

Wool, pulses, onions, barley, oats, fruit, and mutton are Chile's important agricultural exports. Imports of agricultural items comprise about 20 percent of total imports and include such important temperate climate items as wheat, edible oils, cotton, hops, and live cattle and sheep. Other major food

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1/ This Circular was prepared for publication by the Latin American Analysis Branch of FAS, largely from two despatches by Philip M. Davenport, while Agricultural Attache at the American Embassy in Chile: Agricultural Report - Chile - 1953-54, Despatch 819 of April 19, 1954; and Observations on Chilean-United States Trade in Agricultural Commodities, Despatch 1354, June 11, 1953. Despatches on Chilean Foreign Exchange Developments by J. A. Silberstein, Finance Officer at the American Embassy in Chile, were also used.

imports are mostly of the tropical items sugar, bananas, coffee, pineapples, tea and yerba mate.

The similarity of the agricultural economy of Chile and the United States preclude the establishment of any large scale interchange of agricultural products between them. Both the United States and Chile are temperate zone countries and their crops and livestock products show few differences. Chile and the United States must both import complementary tropical products. Sugar, rubber, coffee, and bananas rank high in the import listings of both nations. Chile and the United States also are similar in that their agricultural operations are relatively intensive, except on the sheep and cattle ranges, compared with those of other more thinly populated and less developed areas. This explains, too, why imports into Chile and the United States of agricultural products from other temperate zone countries consist largely of animal products produced by large scale operations. Thus the United States is an importer of wool, and Chile must purchase abroad a large part of its beef requirements.

The export trade in agricultural products of Chile and the United States also exhibits similarities. A large part of the sales of both nations is made to tropical zones and to food deficit areas in Europe. Many of the leading export items of Chile also figure heavily in United States farm export trade, and the countries compete strongly in such commodities as beans, prunes, and fresh fruits.

In spite of the similarity in their agricultural structure, a fairly substantial movement of farm commodities has characterized postwar trade between Chile and the United States. Shipments of farm products from Chile to the United States have generally been heavier than in the other direction. Fruits, vegetables, animal by-products, such as sheep skins, sausage casings, and in some years, wool, have occupied an important place in Chilean sales to the United States. The United States historically has been a heavier purchaser from all sources of certain of these products, such as sausage casings and sheep skins. In the case of shipments of fresh grapes, melons, and other fresh fruits from Chile, the reversed seasons become a factor of considerable economic importance. Thus most shipments from Chile are made in the first three or four months of the calendar year when supplies of the perishable items in the United States are small and prices are high.

Shipments of farm produce from the United States to Chile have fluctuated greatly. In 1935, for instance, rice was the only item of any importance. Early in the war Chile discovered that it could grow its own rice successfully and has become a large exporter of this grain. On the other hand, cotton, which is not produced in Chile, has been an important item during recent years in the exports from the United States to Chile. Chile's textile industry, developed since the war, has become an important consumer of the raw fiber (table 1).

Table 1.

Principal U. S. Agricultural Exports to Chile

	1935	1951 (1000 pounds)	1952	1953
Milled rice	15,865	152	292	50
Wheat1/	0	4,787	4,946	0
Flour	21	10,868	8,511	2,200
Raw cotton, except linters	404	32,947	3,761	2,803
Soybean oil, refined	0	5,333	1,460	0
Soybean oil, crude	4	11,908	11,195	0
Inedible tallow	0	3,678	1,792	12,271
Lard	0	0	44	0
Condensed milk	0	941	227	0
Evaporated milk	1	361	174	0
Dried whole milk	4	145	125	165
Non-fat dry milk solids	0	0	150	413
Hops	28	531	257	554

1/ 1000 bushels.

Postwar United States agricultural exports to Chile have been much more diversified than before the war. The emphasis has shifted from rice to cotton, flour, soybean oil, inedible tallow, and a number of other products including non-fat dry milk solids. Trade statistics indicate that the balance of trade in agricultural products favored Chile in the period 1935-39 and in 1940 to 1944. With increasing Chilean imports during the post-war period, the United States has been developing a market in that country, and during several of the years, has actually achieved an export surplus (table 2).

Table 2.

U. S. Trade with Chile
(Millions of dollars)

	U.S. Exports Total	U.S. Exports Agricultural	U.S. Imports Total	U.S. Imports Agricultural
1935-39	21.0	0.8	30.8	2.0
1940-44	46.9	1.0	120.6	8.5
1946	76.5	1.0	83.4	10.7
1947	124.9	1.9	121.7	7.3
1948	105.0	6.6	175.1	8.3
1949	141.6	12.7	157.3	5.7
1950	70.6	5.2	155.4	7.3
1951	165.6	33.8	205.8	18.6
1952	129.8	17.5	290.4	9.5
1953	97.6	3.2	241.2	4.2

In considering the position of United States farm exports in the Chilean market, however, one must note the very favorable position enjoyed by Argentina, which is a very low-cost producer of many products required by Chile and adjoins Chile geographically. Because of this it is, for a large number of commodities, extremely difficult in normal years for the United States to compete with Argentina in the Chilean market. Too, the recent economic treaty between Argentina and Chile may strengthen the Argentine position. The severe drought and reduced crop production in Argentina in 1952, however, afforded United States agriculture an expanded market in Chile in vegetable oils, wheat and flour during that year.

The good 1952-53 season reduced Chile's total agricultural import requirements and increased its export surpluses of farm products. This situation occurred, however, at a time when both foreign and domestic demand for agricultural products was waning and world prices were falling. Thus there appears to have been a decline of about 10 percent in the value of agricultural imports into Chile in 1953 as compared with 1952. Total exports dropped about 4 percent in value although there was a slight increase in the net quantity of Chilean agricultural produce sold abroad.

Chilean export statistics for agricultural items indicate that the principal change in 1953 was a decline of $5 million in the value of wool sales in consequence of the falling world price, although the export quantity increased. Exports of grains and pulses also fell in 1953. These declines were more than compensated for by an increase in exports of fruits and vegetables and of pine lumber. Purchases of Chile's agricultural exports by the United States, continued to drop. Perhaps the most important reason for this is the relatively unfavorable exchange position of traders selling to hard-currency areas as contrasted with those doing business under exchange agreements and compensation accounts. The proportion that agricultural exports bore to total exports improved slightly from 11.3 percent in 1952 to 12.0 percent in 1953.

Customs figures for 1953 reveal declared imports of agricultural items equivalent to only $92 million. Other sources indicate that actual receipts of sugar, wheat, and cotton exceeded published customs figures by almost $15 million whereas customs figures overvalue cattle imports by $4.5 million. Thus, total agricultural import trade in 1953 probably exceeded $100 million (table 3).

Table 3

Chilean Agricultural Trade

Average	Exports	Imports
	(Million dollars)	
1935-39	25.3	13.6
1941-45	27.4	36.7
1946	46.3	65.9
1947	36.5	86.3
1948	46.5	67.8
1949	39.1	64.1
1950	32.1	69.4
1951	48.0	83.4
1952 1/	51.9	117.4
1953 1/	49.8	100.0

1/ Preliminary

Controls on Foreign Trade

The Chilean Government maintains control over exports and imports of agricultural and other commodities through the use of such mechanisms as multiple exchange rates, quantitative restrictions, trade agreements, and State trading.

Multiple Exchange Rates

Chile's system of controls over the rates of foreign exchange applicable to imports and exports as well as over the quantities and types of goods that may be imported and exported exerts a profound influence over all phases of the economy, including agriculture. Chile's control of foreign exchange began in 1931 and has since evolved into one of the world's most comprehensive and complex systems.

To describe the system as applied to agricultural products in the most general terms; Licenses must be obtained from the National Foreign Trade Council (CONDECOR) -- the foreign exchange authority -- for all imports and exports while the related foreign exchange must be brought from or sold to the Central Bank at the authorized exchange rates. The general policy has been to sell foreign exchange to the importers of goods classified as essential at the more favorable rates. In addition, the importation of many non-essential goods has often been specifically prohibited as have been imports of most of the goods which can be supplied from Chilean sources. For exports, the general

objective has been to buy the foreign exchange from exporters at the lowest exchange rate possible - rates not so low as to impede the export movement of the products but sufficiently low to absorb as an exchange profit any undue spread between the domestic price and a higher export price. In the case of commodities for which the domestic price is high in relation to the export price, the Council allows the exporters more pesos per dollar or other unit of his foreign exchange receipts. In many instances such rates have been high enough to amount to export subsidies for specific commodities.

Beginning in 1953, however, Chile's complex system of exchange rates has undergone important modification insofar as agricultural products are concerned. The principal development was the decision of the government in July 1953 to move all agricultural imports to the uniform rate of 110 pesos to the dollar. This devaluation in effect abolished exchange subsidies on imports of wheat, vegetable oils, tea, and cotton, and added to the sharp increase that took place in the Chilean cost of living during the winter of 1953. A similar consolidation has taken place, but more slowly, with respect to agricultural export exchange rates.

In addition to the foregoing observations on exchange developments, which are applicable in the main to trade with hard currency areas, differential exchange rates have come to play an increasingly important part in trade with soft currency countries and with nations with which Chile has entered into clearing and compensation arrangements. Thus Chilean exporters enjoy much more favorable exchange treatment in trading with Western Germany, Denmark, Sweden, Ecuador, etc., than when shipments are made to the United States. Exchange for so-called Danish compensation dollars has been in the neighborhood of 170 pesos per dollar and German compensation dollars are quoted at 210 pesos. Trade with these countries is freer than in the case of dollar countries. The situation of Chilean importers with respect to soft currencies is the reverse of that of exporters, and importers much prefer to buy from the United States at the official banking rate when the National Foreign Trade Council so permits.

Quantitative Restrictions

Control of the volume of agricultural exports is an essential corollary to the Chilean Government's policy of maintaining domestic price ceilings for food products. The Government, in consultation with the Association of Exporters, early in each calendar year estimates the availabilities of the principal commodities in excess of likely domestic requirements and establishes corresponding export quotas. The quotas may be revised upward or downward during the course of the year if changes in production estimates or in the volume of local consumption make substantial changes in the quantities actually available for export. The primary objective of the export controls is to assure adequate supplies for domestic consumption and prevent excessive buying for export from driving the domestic price level upward unduly.

These restrictions had some influence on trade in 1951 when domestic production was low and foreign demand was strong. During the current period of generally weak world markets, however, Chile's export quotas on foods and other items seem to be largely nominal and to have little meaning even under conditions of subnormal domestic production as occurred in 1953.

Each year a Foreign Exchange Budget is prepared by the National Foreign Trade Council of Chile which controls Chilean foreign exchange licensing. Imports are, in general, limited quantitatively to the amounts set aside in the Foreign Exchange Budget for each of the commodities listed. Those that are not listed are in effect prohibited from importation through the absence of an exchange allocation.

Trade Agreements

Chile is a member of the General Agreement on Tariffs and Trade (GATT) and, has concluded a large number of bilateral most-favored-nation agreements. Some of these agreements contain purchase commitments. In fact, importation of agricultural commodities in Chile is largely accomplished under a system of trade and payments agreements. Exports, especially of nitrates, also occupy an important position in these agreements.

During 1953 and into 1954 Chile took steps to maintain and amplify her system of payment arrangements and compensation agreements with other countries, particularly Europe. The past year has seen trade agreement developments affecting agriculture with Spain, Colombia, France, Sweden, Czechoslovakia, Italy, Western Germany, and Hungary. All of these agreements combined were of less importance to Chilean agricultural trade, however, than the new, amplified commercial agreement with Argentina published in February of 1954. This agreement as finally released provides for importation this year by Chile, without special license, of $52.2 million worth of Argentine products, almost entirely of farm origin. The Argentine Treaty probably accounts for one-half of Chile's agricultural import requirements for 1954 although there is no certainty that deliveries will attain the goals set forth in the treaty. The agreement also calls for exportation to Argentina without permit requirements of almost $8.4 million worth of lumber and about $1.5 million worth of Chilean agricultural and marine products. The supplemental list of Chilean exports requiring permits contains various non-essential agricultural items and sea foods. As in the case of the agreement in effect with Argentina in 1952 and 1953 the new agreement calls for the exchange of Chilean steel for Argentine wheat and of copper for beef cattle and meat.

Imports of wheat under the 1953 agreement with Argentina were only about half of contracted quantities. The steel-wheat trade was beset by a number of complications, particularly with reference to the delivery of the steel. One of the features of the new agreement with Argentina is the use of world market dollar prices for calculating the value of the trade. Heretofore, inflated in terms of Argentine and Chilean pesos were employed.

State Trading

Chile's practice of state trading in agricultural items, particularly imports, has continued to be an important phase of its food policy. The Institute of Agricultural Economy was dissolved early in 1953 and its trading functions were transferred to INACO (National Institute of Commerce) whose powers are far broader than those that were exercised by the old organization. INACO carries on the following activities: (1) monopolization of the importation of wheat; (2) purchasing of Chilean domestic wheat production, although not as a monopoly; (3) purchasing other domestic crops to stabilize prices, and (4) supervision of the activities of trade organizations that handle the importation of such essential commodities as raw sugar, Argentine cattle, vegetable oils and cotton. The conduct of foreign wheat purchasing activities has not changed greatly, but INACO has intervened actively in the domestic purchases of wheat.

Foreign Exchange Developments

The international financial position of Chile is largely determined by the prices and volume of copper and nitrate exports, which make up about 75 percent of total exports. During 1953, as the volume of copper exports declined due to the refusal of the government to permit exports at world prices, the balance of payments of Chile deteriorated. The authorities dealt with this situation by slowing down the issuance of exchange for import payments, by borrowing $25 million from the International Bank for Reconstruction and Development and a New York Bank, and by drawing on previously accumulated exchange reserves. Chile's gold and dollar assets dropped from $135 million in May 1953 to $98 million in May 1954, commercial arrears increased, and Chile was faced with debt repayments of $30-40 million by the end of June 1954. Dollar proceeds from the U.S. stockpile purchase of 100,000 tons of copper in March of this year somewhat alleviated the stringent financial situation during the past few months, and some improvement is also expected as a result of the recent stability in copper prices and the National City Bank of New York loan of $15 million. Nevertheless, Chile's balance of payments situation remains unfavorable, especially as the devaluation of 1953 seems to have touched off a new inflationary spiral (the free rate for the dollar rose from 172 in May 1953 to 362 in May 1954 and was still 340 on July 6, 1954). Copper production has been cut-back, and in expectation of lower exchange earnings the exchange budget was revised downward, and the volume of imports to be licensed was reduced. These import cuts will mainly affect investment goods, however.

In a preliminary calculation of the Foreign Exchange Budget, there is an estimated $124 million dollars for agricultural items as compared with $133 million in the 1953 budget. Provision for purchases by official agencies has increased, however, by over $26 million which will include, according to Foreign Council officials, imports of foodstuffs and other items handled by INACO. If the prospective government purchases in 1954 are added to the ordinary agricultural budget,figures, the total will be $151 million, which is 13 percent above the 1953 Foreign Exchange Budget total for agricultural items. This figure of 13 percent is probably a good indication of the true increase in Chile's import requirements for foods for the current year.

In assessing the outlook for United States exports to Chile it should be noted that Chile's position on compensation accounts is rapidly becoming as difficult as her dollar position. Although the debit balance in the German account was pared down a bit during July, it still was well above the $2.5 million swing authorized by the Trade and Payments Agreement with the Federal Republic. Availabilities of Spanish compensation dollars continue very tight because of heavy licensing by CONDECOR.

Chile's position in her accounts with her Latin American compensation trade partners has noticeably deteriorated. If the debit balance in the Argentine account continues to grow at the rate it has in recent months, it will soon be near the $15 million swing limit.

While maintaining a relatively tight licensing policy on dollar area imports, CONDECOR has been noticeably open-handed in recent months in approving imports from the soft currency areas. Thus, even though almost all Chile's exports, aside from the products of the great mining industry, are being attracted to non-dollar areas by the premium cross rates, the exchange generated has been far from sufficient to satisfy this built-up demand for non-dollar currencies. Starting in June, pressure on the unpegged bank rates for non-dollar currencies started to grow. The widening spread between the bank rate of the dollar pegged at 110 pesos to the dollar, and the bank rates for other currencies, gathered momentum during July, and began showing signs of really getting out of hand in August. By the end of the second week in September, transferable account sterling was being quoted at over 650 pesos to the pound, a cross rate equivalent to more than 232 pesos to the dollar. While it may appear surprising that the bank rate for sterling has been zooming in the face of rising sterling balances in the Central Bank, it should be noted that most of the Central Bank's sterling balances have been promised to the cotton importers to bring in cotton from Peru. For all other purposes, sterling is now almost as scarce as dollars.

Other currencies have been just as scarce and subject to similar pressures. The German compensation dollar, after moving up to 160 at the beginning of August, was being quoted at 210 early in September, and was expected to level off at about the same rate as sterling. By the end of August, the French compensation dollar was being quoted at 235 pesos, and the upward movement in quotations of other non-dollar currencies was equally sharp.

Outlook for United States Agricultural Trade in Chile

Even though Chile and the United States produce similar crops and Argentina has a trade advantage, a need for United States agricultural commodities appears to exist at the present time.

Chile's wheat requirements in 1953 were relatively small because of the good 1952-53 domestic crop, but during 1954 its wheat import requirements will be substantially greater than in 1953 in view of the smaller 1953-54 Chilean harvest. The wheat deficit may total some 14.5 million bushels for the year.

To make up the deficit between the country's needs and domestic production, INACO has by now arranged to purchase in 1954 a total of 11.5 million bushels of wheat from Argentina. Of this total, 3.8 million bushels represent the balance of a contract closed in 1953. Chilean officials believe, however, that it will still be necessary to import an additional 2 to 3 million bushels this year to make up the country's full requirements. The short 1953-54 sunflowerseed crop in Argentina makes it necessary for Chile to look elsewhere for its 1954 edible oil requirements. It is expected Chile will continue to take our cotton and hops and that there may also be a market in Chile for some of our dairy products.

NEW MAILING LIST

FOREIGN DISPOSAL OF FARM COMMODITIES

The Foreign Agricultural Service is establishing an informational mailing list as a service for United States agricultural trade interests who need to keep currently informed regarding the operation of the new farm commodity foreign disposal program under Title I, Public Law 480.

This mailing list (code designation FAS-FSD) will be used for distribution from time to time of press releases, administrative announcements, regulations, progress reports and miscellaneous news about the disposal program. Such material will be of special interest to persons and groups engaged in agricultural export activities.

Individuals and organizations in the United States requesting information will receive it without cost. Requests should be addressed to the Foreign Agricultural Service, U.S. Department of Agriculture, Washington 25, D. C. For convenience, this page, with the address blanks below filled in, may be mailed in to indicate your desire to be placed on the FAS-FSD list.

Name ______________________________

Street or RFD ___________________________

Post Office ________________ Zone ___ State _____________